

REGULAR MEETING

PRESENTER: Chairperson

Please see the attached minutes of the March 5, 1998, Teachers' Retirement Board meeting.

PROPOSED
MINUTES OF
TEACHERS' RETIREMENT BOARD
OPEN SESSION
THURSDAY, MARCH 5, 1998
STATE TEACHERS' RETIREMENT SYSTEM
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA

BOARD MEMBERS PRESENT

Emma Zink, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Gary Lynes
Marty Mathiesen
Michael Mayer
Lillian Raffel

Fred Buenrostro, representing State Controller, Kathleen Connell
Richard Whitmore, representing Superintendent of Public
Instruction, Delaine Eastin
Ted White, representing State Treasurer, Matt Fong
Robin Dezember, representing Director of Finance, Craig Brown

STAFF PRESENT

James D. Mosman, Chief Executive Officer
Ron Meador, Acting Chief Counsel
Patrick Mitchell, Chief Investment Officer
Elleen Okada, DCEO, Investments
Laurence Martin, DCEO, Information and Financial Services
Peggy Plett, DCEO, Administration
Jennifer DuCray-Morrill, DCEO, Gov. Affairs & Program Development
Ken Costa, Director, START Project
Mary Miles, Administrative Assistant

OTHERS PRESENT

Elizabeth Mackenzie, California Retirement Teachers Association
Maureen Rice, SPL Worldgroup
Laura Metzger, Science Applications International Corporation
Beverly Carlson, California Teachers Association
Dave Walrath, California Teachers Association
Loretta Toggenberger, United Teachers Los Angeles
Phyllis Pipes, California Federation of Teachers
Dorothy Moser, United Teachers Los Angeles - Retired
Ellen Logue, California Retirement Teachers Assoc. - Retired

A quorum being present, Chairperson Zink called the meeting to order at 9:30 a.m.

II. APPROVAL OF MINUTES OF FEBRUARY 5, 1998 MEETING

MOTION duly made by Mr. Lynes, seconded by Mr. Mathiesen, and carried to approve the Board Meeting Minutes of February 5, 1998.

III. **ANNOUNCEMENTS**

There were no announcements.

IV. **COMMITTEE REPORTS**

INVESTMENT COMMITTEE: Mr. Lynes reported that the Committee, in open session, extending the contracts for Global Asset Allocation managers for up to twelve months. Mr. Lynes reported that the Committee deferred action on performance fees for AMB and also deferred action on the tobacco-related bills until a third party analysis is completed.

The Committee heard a report on Global Fixed Income, looked at the role of active versus passive International Equity management, and the role of the Real Estate consultant. The Committee also reviewed the School Bond issues for Credit Enhancement and directed the CEO to obtain special legal opinions and, if possible, to pursue legislation. The Committee heard status reports on the Credit Enhancement Program, Real Estate, Alternative Investments, and the CIO Report. Mr. Lynes reported that the fund's portfolio had exceeded \$80 billion in value.

Mr. Lynes also reported that the Committee, in closed session, discussed matters of potential litigation.

BY CONSENSUS, the report of the Investment Committee was accepted.

AD HOC GOVERNANCE COMMITTEE: Mr. Whitmore reported that the Committee directed the CEO, after considerable debate, to bring back a new policy on the reporting of contributions and gifts based on the discussions. The Committee also directed staff on how to address Investment Committee closed session items, and affirmed the additional work that Cortex will conduct on Board Governance issues.

BY CONSENSUS, the report of the Ad Hoc Governance Committee was accepted.

BUDGETS AND AUDITS COMMITTEE: Mr. Fenimore reported that the Committee received status reports on Coopers and Lybrand's Review of Controls on Investment Activities, and the Internal Audit Final Reports on Financial & Management Reporting process and review of Blank Check Stock. The Committee also received an Audit Status Report on Internal, District, and Compliance, and the 1997/98 Budget Status Report.

BY CONSENSUS, the report of the Budgets and Audits Committee was accepted.

BENEFITS AND SERVICES COMMITTEE: Ms. Bodle reported that the Committee adopted the default decision recommended by staff on the case of Louis Laud and adopted the 1998 Annual Report on Purchasing Power Allowances which will be submitted to the Governor and the Legislature.

BY CONSENSUS, the report of the Benefits and Services Committee was accepted.

V. **CHIEF EXECUTIVE OFFICER REPORT**

Mr. Mosman reported that normally the valuation reports are sent with the regular agenda, however, the report was not released until this meeting.

VI. **TRAVEL REPORT**

Mr. Mosman presented this item.

MOTION duly made by Mr. Mayer, seconded by Ms. Bodle, and carried to approve the travel report. Mr. Buenrostro voted no; Mr. Whitmore abstained.

Mr. Dezember arrived at 9:44 a.m.

Mr. Mosman stated that the System will reimburse NCTR for travel expenses incurred while attending their Executive and Committee meetings due to an FPPC requirement to declare this type of expense on the disclosure statement. Mr. Mosman was also directed to apply this same policy for Board members who attend these functions.

MOTION duly made by Ms. Raffel, seconded by Mr. Fenimore, and carried to approve the travel summaries as presented.

VII. **UPDATE ON LEGISLATION**

STATE: Ms. DuCray-Morrill requested the Board's consideration of the following bill.

SB 610 (O'Connell): This bill extends the unspecified reciprocal rights to members of the '37 Act Counties retirement system who are also members of the STRS' Defined Benefit Plan. Staff recommended the Board adopt a support if amended position.

MOTION duly made by Mr. Whitmore, seconded by Mr. Fenimore, and carried to adopt a support if amended position on Senate Bill 610.

Ms. DuCray-Morrill distributed a list of all active bills that have been introduced to date and a copy of Assembly Bill 2616, which would increase the age factor, along with a fiscal analysis for information purposes. Staff has been working with CTA to determine how to make AB 2616 cost neutral and Ms. DuCray-Morrill indicated that nothing had yet been identified. Staff will be preparing

a matrix with all the benefit enhancement proposals with their associated costs for the next meeting.

Ms. Toggenberger, UTLA, stated that the initial response to an increase in the age factor at retirement indicates that this benefit will be a factor to help some teachers stay in their teaching positions and requested the Board's support. Ms. Logue, CTA-R, also commented on the great need for keeping certificated teachers in the classroom.

Mr. Mosman advised the Board that a strategy is needed to address the many types of benefit enhancement options that will be forthcoming.

FEDERAL LEGISLATION: Ms. DuCray-Morrill reported that Mandatory Social Security continues to be the major issue, and a meeting has been scheduled with various state representatives in San Francisco with the Governmental Accounting Office (GAO). Ms. DuCray-Morrill is hoping that GAO will reveal their study on how pension plans will be impacted by Mandatory Social Security. Staff continues to work with UTLA on modifying the Social Security Offset legislation.

VIII. DEFINED BENEFIT PLAN ACTUARIAL VALUATION

Ms. DuCray-Morrill introduced Mr. Carter and Ms. Peake from Watson Wyatt, who presented the Defined Benefit Plan Actuarial Valuation. Mr. Carter reported that the System should be fully funded in three years which is a significant difference from the 18 years reported by the previous actuarial valuation.

Mr. Walrath, CTA, asked the Board to look at benefits available for enhancement. Ms. Carlson, CTA, complimented the Board on the decisions that led up to this event, which included the selection of the new Chief Investment Officer. Ms. Moser of UTLA-R, Ms. Pipes of CFT, and Ms. Toggenberger of UTLA, all expressed their pleasure at the actuarial report.

MOTION duly made by Mr. Lynes, seconded by Ms. Raffel, to adopt the Defined Benefit Plan Actuarial Valuation as presented.

Ms. DuCray-Morrill distributed a press release for the Board's consideration and was directed to release the statement as presented.

IX. **CASH BALANCE PLAN ACTUARIAL VALUATION**

Mr. Carter and Ms. Peake presented the Cash Balance Plan Actuarial Valuation.

MOTION duly made by Ms. Bodle, seconded by Ms. Raffel, to adopt the Cash Balance Plan Actuarial Valuation as presented.

X. **START PROJECT UPDATE**

Mr. Costa, Maureen Rice representing SPL Worldgroup, and Laura Metzger representing Science Applications International Corporation, provided an update on the Project. Mr. Costa reported that an agreement had been reached on the deliverables shown in Attachment A and that the final implementation date has been identified as March 2000. A presentation will be provided at the April meeting on the Conversion and Testing Teams.

XI. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC**

There were none.

XII. **ADJOURNMENT**

Chairperson Zink went directly into Closed Session to discuss investment issues at 10:45 a.m.

At 10:56 a.m., Chairperson Zink returned to open session. There being no further business to conduct, Chairperson Zink adjourned the meeting at 10:57 a.m.

James D. Mosman, Chief Executive
Officer and Secretary to the
Teachers' Retirement Board

Emma Zink, Chairperson